



The cost of the bailout is turning out to be much less than expected. In the Middle East, Abu Dhabi bailed out Dubai with \$10 billion of equity, and this has not stopped industrial real estate values from plummeting in Dubai. However, while some had predicted a cost of \$5-6 trillion or more for the US portion alone, it appears that the worldwide bailout will total less than a trillion dollars. The US bailout will amount to \$89b, according to Treasury Secretary Timothy Geithner (which contains notable subsidies for GMAC and AIG), and some of the larger European corporate bailouts were denied. Asia's exposure, which had at one point been inestimably large, seems to be not more than \$350 billion.

## Too Small to Fail: **A New Model** for Regulatory Oversight

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Why did some companies perish while others got rescued? Why did more than 150 US banks go bust? What lessons can we learn and apply to companies in the transportation and logistics sector? Should we save or subsidize companies like industrial financial holding companies (like Dubai World), real estate conglomerates (like those that are being bought and restructured in Dubai today) and ocean shipping lines (like COSCO and CMA/CGM) that took on extraordinary amounts of debt?

Imperfect capitalism and rushed response resulted in some firms being treated differently than others. The last two years have been exceptional and have invoked unique behavior on the basis of "too big to fail" and the prospect of systemic job losses. Lawrence Summers, director of the White House's National Economic Council, estimates that if the US government had not rescued GM, the firm's failure would have resulted in 1.4 million lost jobs instead of 400,000.

The economic experience of the crisis

is an anomaly and must be seen as such. Throughout history, private enterprises have been more nimble than government-owned ones. The Darwinian adage "survival of the fittest" has proven to be accurate, as publicly supported companies have frequently underperformed their private-sector rivals. For historical comparisons, consider Sea-Land vs. APL, CMA/CGM vs. Maersk, Conrail vs. CSX and Norfolk Southern, and Amtrak vs. BNSF. Witness the recent restructuring of Teesport compared to the situation of nimble private sector rivals such as MMC/PTP in Singapore. These are the logistics equivalents of Renault vs. Mercedes in the automotive world, demonstrating that free markets provide a critical self-correcting adaptability. Absent the global severity of the crisis, Government bail-outs typically only prolong the pain and raise the cost to taxpayers, and indirect public support of unproductive jobs is worse than paying workers to go home.

In fact, the best way to provide long-

term economic resilience might be to subsidize the growth of smaller companies that could eventually overtake the larger ones when they stumble. This would amount to a "trickle-up" approach rather than a "too-big-to-fail" approach. It can be achieved through the careful execution of massive capital projects such as Europe's aggressive goals to generate 20% of its energy from wind by 2020, the US's tax incentives to stimulate energy-efficient motors and vehicles, and Asia and the Middle East's infrastructure spending stimulus. These programs, along with support for the transport and logistics sector, should be spent in a way that supports small and mid-sized companies which for the long-term health of the economy should be considered "too small to fail." ■

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